MULTIMEDIA UNIVERSITY

STUDENT ID NO.

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019 / 2020

DEC5124 –MACROECONOMICS

(All sections / Groups)

02 MARCH 2020
2.30 p.m – 4.30 p.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **SIX (6)** printed pages with:
   Section A: **Thirty (30)** multiple choice questions (60 marks)
   Section B: **Two (2)** structured questions (40 marks)

2. Answer **ALL** questions.

3. Shade your answers for **Section A** in the Multiple-Choice Answer Sheet and **Section B** in the Answer Booklet provided.

4. Marks allocations are shown at the end of each question.

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SECTION A: MULTIPLE CHOICE QUESTIONS (60 MARKS)

Instruction: Shade your answer in the multiple choice answer sheet.

1. Money _____.
   A. makes trades easier
   B. allows greater specialization
   C. is more efficient than barter
   D. All of the above are correct

2. Which of the following best illustrates the medium of exchange function of money?
   A. You keep some money hidden in your shoe.
   B. You pay for your double latte using currency.
   C. You keep track of the value of your assets in terms of currency.
   D. None of the above is correct.

3. Fiat money _____.
   A. is worthless
   B. has no intrinsic value
   C. may be used as a medium of exchange, but is not legal tender
   D. performs all the functions of money except providing a unit of account

4. Samuel keeps a part of his earnings as cash in a safety deposit box, which means he is employing money as _____.
   A. a store of value
   B. a medium of exchange
   C. a measure of value
   D. None of the above

5. In Malaysia, the main components of M1 money consists of _____.
   A. cash and coins
   B. cash and bank deposits
   C. cash and current deposits
   D. bank deposits and current deposits

6. The different between M1 and M2 is based on _____.
   A. storability – how long an asset will retain its value
   B. portability – the ease with which an asset can be moved
   C. liquidity – the ease with which an asset can be converted into cash
   D. divisibility – the ease with which an asset can be used to make smaller payments

7. Which of the following is not the function of a central bank?
   A. As lender to public.
   B. Prints money.
   C. Implements monetary policies.
   D. Controls the process of credit creation by commercial banks.

Continued...

8. When price level are falling, economists say that there is _____.
   A. deflation
   B. disinflation
   C. a contraction
   D. an inverted inflation

9. As the price level decreases, the value of money_____.
   A. increases, so people want to hold more of it
   B. increases, so people want to hold less of it
   C. decreases, so people want to hold more of it
   D. decreases, so people want to hold less of it

10. What is the best term for a situation in which a person is over qualified for the job he/she has?
   A. Low-skilled work.
   B. Underemployment.
   C. Partial employment.
   D. Discourage workers.

11. An unemployed person is said to be structurally unemployed if _____.
   A. he lacks job skills
   B. he has lost his job during a recession
   C. he has quit his job to look for another job
   D. he has lost his job due to seasonal factors

12. Jasmon and his colleagues become unemployed due to the Asian financial crisis in 1997. This describes _____.
   A. disguised unemployment
   B. structural unemployment
   C. cyclical unemployment
   D. frictional unemployment

13. Demand-pull inflation is caused by the following, except?
   A. Increase in wages.
   B. Increase in exports.
   C. Increase in investments.
   D. Increase in government expenditure.

14. Which of the following can cause cost-push inflation?
   A. An increase in consumption.
   B. An expansion in bank credit.
   C. An increase in government expenditure.
   D. An increase in the price of raw materials.

Continued...

15. The supply curve of money is vertical because the quantity of money supplied increases _____.
    A. when the value of money increases.
    B. when the value of money decreases.
    C. only if people desire to hold more money.
    D. only if the central bank increases the money supply.

16. Suppose that monetary neutrality and the Fisher effect both hold and the money supply growth rate has been the same for a long time. Other things the same a higher money supply growth would be associated with _____.
    A. both higher inflation and higher nominal interest rates
    B. a higher inflation rate, but not higher nominal interest rates
    C. a higher nominal interest rate, but not higher inflation
    D. neither a higher inflation rate nor a higher nominal interest rate

17. A nation's standard of living is measured by its _____.
    A. real GDP
    B. real GDP per person
    C. nominal GDP
    D. nominal GDP per person

18. Which of the following is correct?
    A. Productivity is not closely linked to government policies.
    B. Productivity may be measured by the growth rate of real GDP per person.
    C. Although levels of real GDP per person vary substantially from country to country, the growth rate of real GDP per person is similar across countries.
    D. The level of real GDP per person is a good gauge of economic prosperity, and the growth rate of real GDP per person is a good gauge of economic progress.

19. Productivity _____.
    A. is nearly the same across countries, and so provides no help explaining differences in the standard of living across countries
    B. explains very little of the differences in the standard of living across countries
    C. explains some, but not most of the differences in the standard of living across countries
    D. explains most of the differences in the standard of living across countries

20. Which of the following is a determinant of productivity?
    A. Human capital per worker.
    B. Physical capital per worker.
    C. Natural resources per worker.
    D. All of the above.

21. Which of the following is considered human capital?
    A. The comfortable chair in your dorm room where you read economics texts.
    B. The amount you get paid each week to work at the library.
    C. The things you have learned this semester.
    D. Any capital goods that require a human to be present to operate.

Continued...

22. The inputs into production of goods and services that are provided by nature, such as land, rivers, and mineral deposits are called_____.
    A. physical capital
    B. natural resources
    C. human capital
    D. technological knowledge

23. Net capital outflow measures _____.
    A. foreign assets held by domestic residents minus domestic assets held by foreign residents
    B. the imbalance between the amount of foreign assets bought by domestic residents and the amount of domestic assets bought by foreigners
    C. the imbalance between the amount of foreign assets bought by domestic residents and the amount of domestic goods and services sold to foreigners
    D. None of the above is correct

24. An Italian citizen opens and operates a spaghetti factory in the United States. This is Italian_____.
    A. foreign direct investment that increases Italian net capital outflow
    B. foreign direct investment that decreases Italian net capital outflow
    C. foreign portfolio investment that increases Italian net capital outflow
    D. foreign portfolio investment that decreases Italian net capital outflow

25. Balance of payment is _____.
    A. a record of payments made by one company in one country to another company in another country
    B. the identity that illustrates balance between exports and imports
    C. a periodic statement of the monetary value of all transactions between residents in one country and residents of all other countries
    D. any transaction that supplies the domestic country's currency

26. The different between current account balance and financial account balance is the _____.
    A. trade deficit
    B. trade balance
    C. balance of payment
    D. statistical discrepancy

27. Current transfer includes all of the following except _____.
    A. gifts.
    B. military aid.
    C. financial aid.
    D. investments.

Continued...

28. Which of the following is correct?
    A. $NCO + C = NX$.
    B. $NCO = NX$.
    C. $NX = C$.
    D. $NX + NCO = C$.

29. Suppose that the real return from operating factories in Ghana rises relative to the real rate of return in the United States. Other things the same, _____.
    A. this will only increase U.S. net capital outflow
    B. this will only increase Ghanan net capital outflow
    C. this will increases U.S. net capital outflow and decrease Ghanan net capital outflow
    D. this will decreases U.S. net capital outflow and increase Ghanan net capital outflow

30. If a country has a trade surplus _____.
    A. it has positive net exports and positive net capital outflow
    B. it has positive net exports and negative net capital outflow
    C. it has negative net exports and positive net capital outflow
    D. it has negative net exports and negative net capital outflow

SECTION B: STRUCTURED QUESTIONS (40 marks)

Instruction: Answer all questions in the answer booklet provided.

Question 1

(a) Define money and its function. (8 marks)

(b) The following are data for the aggregate released by Malaysia's Ministry of Finance for year 2017.

Item	RM (million)
Demand deposits	2,096
Fiat money	240
Saving in commercial banks	6,000
Fixed deposits in commercial banks	800
Travellers' cheques	32
Deposit in other financial institutions	3,480
Saving in trust funds (ASB, ASN)	1,704
Savings in Bank Simpanan Nasional	2,720

Continued...

Compute:

i. M1: Narrow money. (4 marks)
ii. M2: M1 + Near money. (4 marks)
iii. M3: Broad money (4 marks)

[Total: 20 marks]

Question 2

The following table shows the inflation and unemployment rate in Country ZZ.

Inflation rate (percent per year)	Unemployment rate (percent of labour force)
3%	7%
4%	6%
5%	5%
6%	4%

The table above shows the Phillips curve when the expected rate of inflation is 4%. The natural rate of unemployment is 6% and the actual inflation rate is 4%.

(a) Illustrate the Short-Run Philip Curve (SRPC) and label it $SRPC_0$ and the Long-Run Philip Curve (LRPC) and label it as LRPC. (8 marks)

(b) Suppose the inflation rate rises to 6% and immediately after the increase, the expected inflation rate does not change. What is the unemployment rate? (4 marks)

(c) Continuing with the situation in part (b), suppose that after a year the expected inflation rate rises to 5%, illustrate new Short-Run Philip Curve (SRPC) that results from the change in the expected inflation rate. Label this as $SRPC_1$.

(4 marks)

(d) If the inflation rate remains at 6%, after inflation expectations have increased to 5%, what is the unemployment rate? (4 marks)

[Total: 20 marks]

End of Page